

Sales made to Medicare, Medicaid and other government healthcare providers are exempt from tax as sales to a government body so long as the exemption is properly documented through provision of an active exemption identification number and payment is made **directly** by the government agency. See 86 Ill. Adm. Code 130.2080. (This is a GIL.)

April 23, 2007

Dear Xxxxx:

This letter is in response to your letter dated December 15, 2006, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at [www.ILTAX.com](http://www.ILTAX.com) to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

I am writing to receive clarification on sales and use tax issues.

Attached is a copy of General Information Letter ST 99-0295-GIL on Medical Appliances. Page 4, paragraph 2, sentences 4 and 5 state:

This means when Medicare directly pays 80% of the medical bill and the remaining 20% is billed to the patient or his insurance company, assuming proper documentation of the exemption, the 80% is tax exempt as a governmental payment while the 20% is taxable. Please note that the Department is currently reviewing the application of this rule and it may be changed within the next six months.

I would like to verify that it is still the Department of Revenue's policy that the 80% amount billed to Medicare or the Illinois Department of Healthcare and Family Services is exempt from sales tax to a government entity.

I would also like to verify whether or not the 20% billed to either the patient's insurance company or the patient directly is taxable or exempt.

The Letter ST 99-0295-GIL stated that the application of this rule may be changed. After performing research and talking with a Department of Revenue representative, I have not been able to confirm in writing my two questions above.

If you have any questions, or require additional information, please do not hesitate to contact me.

## DEPARTMENT'S RESPONSE

The rules regarding sales made to Medicare, Medicaid, and other government programs have not changed. Sales made to Medicare and Medicaid are exempt from tax as sales to a government body so long as the exemption is properly documented through provision of an active exemption identification number. See 86 Ill. Adm. Code 130.2080(a). This rule applies to all servicemen. While no tax may be due on payments made directly to vendors by Medicare, Medicaid, or the Illinois Department of Healthcare and Family Services, tax is due upon any portions of bills paid by individuals or private insurance companies not covered by Medicare, Medicaid, or the Illinois Department of Healthcare and Family Services. This means, for example, when Medicare directly pays 80% of the medical bill and the remaining 20% is billed to the patient or his insurance company, assuming proper documentation of the exemption, the 80% is tax exempt as a governmental payment while the 20% is taxable. 86 Ill. Adm. Code 130.2005 and 130.2007.

It is important to note that payments will only be exempt from tax when they are paid **directly** by the government agency. It is not enough that a payment to the vendor is made by a patient or insurance company and reimbursed by the government agency.

If you require additional information, please visit our website at [www.ILTAX.com](http://www.ILTAX.com) or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Martha P. Mote  
Associate Counsel

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